

USTA PART 32 AND PART 64 STREAMLINING

May 1, 1998

TIMING/ITEM#	AGENDA AREA	ACTION	RATIONALE
<p>Future</p> <p>ITEM 6H</p>		<p>Eliminate Part 64</p>	<p><i>Burden to LEC</i> - Part 64 process, audits, etc., are costly. These burdens are not placed on incumbent IXCs putting LECs at a competitive disadvantage. IXCs, CLECS, etc., are not strapped with the regulatory burden of allocating costs per Commission approved methods and procedures. Vestiges of rate of return regulation should be eliminated.</p> <p><i>Public Interest Consideration</i> - Effort spent on Part 64 can be used in other areas which will make LECs more competitive.</p> <p>Part 64 is used to allocate the current actual costs in the OTC books of account. Because Price Caps severs the link between price and cost, the amount of allocated cost is of no consequence. Hence, Part 64 offers no additional protection. As the Commission has already indicated, Part 64 costs are not used to price competitive services, and it is the antitrust laws that protect against predatory pricing (See 86-111, Par 40)</p> <p>Part 64 is not necessary to insure there are is no cross subsidization between competitive and noncompetitive services for the purposes of Universal Service (Telecom Act 254K). High Cost is determined using forward looking costs. Part 64 is not a forward looking cost accounting process. Both competitive and noncompetitive services are funded for Schools and Library and Rural Health Care. The support provided the School, Library or Rural Health Care customer has nothing to do with Part 64 cost allocation. Finally, the process for determining whether a customer qualifies for low income rates does not use Part 64.</p>

§ 32.2000 Instructions for telecommunications plant accounts

(a) Purpose of telecommunications plant accounts.

(1) The telecommunications plant accounts (2001 to 2007 inclusive) are designed to show the investment in the company's tangible and intangible telecommunications plant which ordinarily has a service life of more than one year, including such plant whether used by the company or others in providing telecommunications service.

(2) The telecommunications plant accounts shall not include the cost or other value of telecommunications plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of telecommunications plant shall be credited to the accounts charged with the cost of such construction. Amounts of non-recurring reimbursements based on the cost of plant or equipment furnished in rendering service to a customer shall be credited to the accounts charged with the cost of the plant or equipment. Amounts received for construction which are ultimately to be repaid wholly or in part, shall be credited to Account 4360, Other Deferred Credits; when final determination has been made as to the amount to be returned any unrefunded amounts shall be credited to the accounts charged with the cost of such construction. Amounts received for the construction of plant, the ownership of which rests with or will revert to others, shall be credited to the accounts charged with the cost of such construction. (Note also Account 7110, Income from Custom Work.)

(3) When telecommunications plant ordinarily having a service life of more than one year is installed for temporary use in providing telecommunications service, it shall be accounted for in the same manner as plant having a service life of more than one year.

(4) The cost of individual items of equipment having a life less than one year or with an original cost less than an expense limit as designated by a Company based on Generally Accepted Accounting Principles, shall be charged to the applicable Plant Specific Operations Expense accounts. If the aggregate investment in the items is relatively large at the time of acquisition, such amounts shall be maintained in an applicable materials and supplies account until the items are used.

(b) The accounting for property plant and equipment is to be recorded at original cost:

(1) Depreciation and amortization of plant acquired shall be credited to Account 3100, Accumulated Depreciation; or Account 3200 Accumulated Depreciation-Held for Future Telecommunications Use; 3400, Accumulated Amortization-Tangible, 3410, Accumulated Amortization-Capitalized Leases; 3420 Accumulated Amortization-Leasehold Improvements; 3500, Accumulated Amortization-Intangibles; and 3600, Accumulated Amortization-Other, and debited to Account 1439.

c) Cost of construction.

(1) Telecommunications plant represents an economic resource which will be used to provide future services, the cost of which will be allocated in a rational and systematic

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manner to the future periods in which it provides benefits. In accounting for construction costs, the utility shall charge to the telecommunications plant accounts, where applicable, all direct and indirect costs: Labor, Engineering, Material and Supplies, Transportation, Contract Work, Protection, Privileges, Taxes, Allowance for Funds Used During Construction, and Other Related Costs.

(d) Telecommunications plant retired

(1) Telecommunications plant accounts shall at all times disclose the original cost of all property in service. When any item of property subject to plant retirement accounting is worn out, lost, sold, destroyed, abandoned, surrendered upon lapse of title, becomes permanently unserviceable, is withdrawn or for any other reason is retired from service, the plant accounts applicable to that item shall be credited with the original cost of the plant retired whether replaced or not (except as provided for minor items).

(2) The accounting for the retirement of property, plant and equipment shall be as provided above except:

(i) Minor items: This group includes any part or element of plant which is not designated as a retirement unit. However, if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, of greater durability, of greater capacity, or more economical in operation), the excess cost of such a replacement, over the estimated cost at the then current prices of replacement without betterment of the minor items being retired, shall be charged to the applicable telecommunications plant account.

(ii) Amounts included in Account 2005, Telecommunications Plant Adjustment; Account 2680, Amortizable Tangible Assets; Account 2681, Capital Leases; Account 2682, Leasehold Improvements; Account 2690, Intangibles; and any amounts associated with amortizable leaseholds, easements, and similar rights in land included in Account 2111, Land, shall be debited, as appropriate, to Accounts 3400, 3410, 3420, 3500, or 3600, and credited to the applicable accounts.

(iii) Amounts in Account 2111, Land, and amounts for works of art recorded in Account 2122, Furniture, shall be treated at disposition as a gain or loss and shall be credited or debited to Account 7150, Gains and Losses from Disposition of Land and Artwork, as applicable. If land or artwork is retained by the company and held for sale, the cost shall be charged to Account 2006, Nonoperating Plant.

(3) When the telecommunications plant is sold together with traffic associated therewith, the original cost of the property shall be credited to the applicable plant accounts and the estimated amounts carried with respect thereto in the accumulated depreciation and amortization accounts shall be charged to such accumulated accounts. The difference, if any between the net amount of such debit and credit items and the consideration received (less commissions and other expenses of making the sale) for the property shall be included in Account 7350, Gains and Losses from Disposition of Certain Property. The accounting for depreciable telecommunications plant sold without the traffic associated therewith shall be in accordance with the accounting provided in § 32.3100(c) of this subpart.

(e) Basic property records must be

- (i) subject to internal accounting controls,
- (ii) auditable,
- (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and
- (iv) maintained throughout the life of the property.

(f) Standards for Maintaining Continuing Property Records

(1) Property records shall be maintained by original cost where appropriate. Otherwise averaging or estimates as described below shall be used.

(2) Averaging.

Average costs may be developed for plant consisting of a large number of similar units. Units of similar size and type within each specified account may be grouped.

(3) Estimates.

In cases where the actual original cost of property cannot be ascertained, such as pricing an inventory for the initial entry of a continuing property record or the pricing of an acquisition for which the continuing property record has not been maintained, the original cost may be estimated. Any estimated original cost shall be consistent with the accounting practices in effect at the time the property was constructed.

32.2000F(5)-(9).

(g) Depreciation accounting--

(1) Computation of depreciation rates.

(i) Depreciation percentage and/or amortization rates shall be computed in conformity with a group plan of accounting for depreciation and shall be such that the loss in service value of the property, except for losses excluded under the definition of depreciation, may be distributed under the straight-line method during the service life of the property.

(2) Depreciation charges.

(i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges.

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(ii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts.

(iii) In certain circumstances, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over appropriate periods.

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RELATED TO NETTING REG ASSET AND REG LIABILITY:

Account 4361 - Regulatory Liability should be changed to read the following:

(a) This account shall include amounts of probable future ~~revenue~~ *net reductions in revenues attributable to future decreases in taxes payable.* (future revenue reductions in excess of future revenue increases) attributable to:

1- future net decreases to taxes payable related to the tax effects of temporary differences accounted for under the flow-through method(future decreases in excess of future increases).

2 - the impact of tax rate decreases in excess of tax rate increases on net deferred tax liabilities (deferred tax liabilities in excess of deferred tax assets) for those temporary differences underlying its existing balance

3 - the impact of tax rate increases in excess of tax rate decreases on net deferred tax assets (deferred tax assets in excess of deferred tax liabilities) for those temporary differences underlying its existing balance.

As *net reductions in revenue* occur, amounts recorded in this account shall be reduced with a debit entry and a credit entry to account 4340.

Account 1437 - Regulatory Asset should be changed to read as follows:

(a) This account shall include amounts of probable future *net increases in revenues* ~~for the recovery of future increases in taxes payable.~~ (future revenue increases in excess of future revenue decreases) attributable to:

1- future net increases to taxes payable related to the tax effects of temporary differences accounted for under the flow-through method (future increases in excess of future decreases).

2 - the impact of tax rate increases in excess of tax rate decreases on net deferred tax liabilities (deferred tax liabilities in excess of deferred tax assets)for those temporary differences underlying its existing balance

3 - the impact of tax rate decreases in excess of tax rate increases on net deferred tax assets (deferred tax assets in excess of deferred tax liabilities) for those temporary differences underlying its existing balance.

As *net increases in revenue* ~~reversals~~ occur, amounts recorded in this account shall be reduced with a credit entry and a debit entry to account 4340.

RELATED TO ELIMINATING THE GROSS-UP:

Replace 32.4340(a)-(e) with these words:

Account 4340 shall include the deferred tax effects of all unreversed temporary differences (i.e., SFAS No. 109 requires that unreversed temporary differences should be stated at the rate the tax will be paid) as defined under SFAS No. 109.

Delete account 4341, section 32.4341(a)-(c).

June 4, 1998

Mr. Jose Luis Rodriguez
Chief, Accounting Systems Branch
Federal Communications Commission
2000 L Street, N.W. – Room 812
Washington, DC

Dear Mr. Rodriguez;

As a follow-up to the May 1 information sharing session on Part 32 and Part 64 streamlining, you asked that the USTA Accounting and Cost Allocation group provide to you a comparison of the proposed 47 CFR 32.2000 wording and the wording that currently appears in these rules.

The attached document shows the additions and deletions to the current rules that would result in the proposed wording provided to you on May 1.

The USTA Accounting and Cost Allocation group would again like to express its appreciation to you and your staff for meeting with them on this topic. The group looks forward to continued dialogue with you in these areas.

Very truly yours,

Porter E. Childers

Porter E. Childers

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Additions are in Italics. Deletes appear as overstrikes.

§ 32.2000 Instructions for telecommunications plant accounts

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(2) The telecommunications plant accounts shall not include the cost or other value of telecommunications plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of telecommunications plant shall be credited to the accounts charged with the cost of such construction. Amounts of non-recurring reimbursements based on the cost of plant or equipment furnished in rendering service to a customer shall be credited to the accounts charged with the cost of the plant or equipment. Amounts received for construction which are ultimately to be repaid wholly or in part, shall be credited to Account 4360, Other Deferred Credits; when final determination has been made as to the amount to be returned any unrefunded amounts shall be credited to the accounts charged with the cost of such construction. Amounts received for the construction of plant, the ownership of which rests with or will revert to others, shall be credited to the accounts charged with the cost of such construction. (Note also Account 7110, Income from Custom Work.)

(3) When telecommunications plant ordinarily having a service life of more than one year is installed for temporary use in providing telecommunications service, it shall be accounted for in the same manner as plant having a service life of more than one year. ~~This includes temporary installations of plant (such as poles, wire and cable) installed to maintain service during the progress of highway reconstruction or during interruptions due to storms or other casualties, equipment used for training of operators, equipment used to provide intercepting positions in central offices to handle traffic for a short period following extensive system changes and similar installations of property used to provide telecommunications service.~~

(4) The cost of individual items of equipment, ~~classifiable to Accounts 2112, Motor Vehicles; 2113, Aircraft; 2114, Special Purpose Vehicles; 2115, Garage Work Equipment; 2116, Other Work Equipment; 2122, Furniture; 2123, Office Equipment; and 2124, General Purpose Computers,~~ costing \$2,000 or less or having a life less than one year shall be charged to the applicable Plant Specific Operations Expense accounts. If the aggregate investment in the items is relatively large at the time of acquisition, such amounts shall be maintained in an applicable materials and supplies account until the items are used.

(b) ~~Telecommunications plant acquired.~~ The accounting for property, plant and equipment is to be recorded at original cost.

~~(1) Property, plant and equipment acquired from an entity, whether or not affiliated with the accounting company, shall be accounted for at original costs, except that property, plant and equipment acquired from a nonaffiliated entity shall be accounted for at acquisition cost if the purchase price is less than \$100,000 for Class A companies or \$25,000 for Class B companies.~~

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~~(2) The accounting property plant and equipment is to be recorded at original cost shall be as follows:~~

~~(i) The amount of money paid (or current money value of any consideration other than money exchanged) for the property (together with preliminary expenses incurred in connection with the acquisition) shall be charged to Account 1439, Deferred Charges.~~

~~(ii) The original cost, estimated if not known, of telecommunications plant, governmental franchises and other similar rights acquired shall be charged to the applicable telecommunications plant accounts, Telecommunications Plant Under Construction, and the actual original cost cannot be determined and estimates are used, the company shall be prepared to furnish the Commission with the particulars of such estimates.~~

~~(1)~~ (iii) Depreciation and amortization of plant acquired shall be credited to Account 3100, Accumulated Depreciation, or Account 3200 Accumulated Depreciation-Held for Future Telecommunications Use, 3400, Accumulated Amortization-Tangible, 3410, Accumulated Amortization-Capitalized Leases, 3420, Accumulated Amortization-Leasehold Improvements, 3500, Accumulated Amortization-Intangibles, and 3600, Accumulated Amortization-Other, and debited to Account 1439.

~~(iv) Any amount remaining in Account 1439, applicable to the plant acquired, shall upon completion of the entries provided in paragraphs (b)(2)(i), (ii) and (iii) above, be debited or credited, as applicable to Account 2007, Goodwill or to Account 2005, Telecommunications Plant Adjustment, as appropriate.~~

~~(3) A memorandum record shall be kept showing the amount of contributions in aid of construction applicable to the property acquired as shown by the accounts of the previous owner.~~

~~(4) Companies shall submit to the Commission for consideration and approval copies of journal entries recording acquisition of telecommunications plant covered by this instruction when the consideration paid is \$1,000,000 or greater (Class A companies) and \$250,000 or greater (Class B companies). The text of such entries shall give a complete description of the property acquired and the basis upon which the amounts of the entries have been determine~~

(c) Cost of construction.

(1) Telecommunications plant represents an economic resource which will be used to provide future services, the cost of which will be allocated in a rational and systematic manner to the future periods in which it provides benefits. In accounting for construction costs, the utility shall charge to the telecommunications plant accounts, where applicable, all direct and indirect costs: *Labor, Engineering, Material and Supplies, Transportation, Contract Work, Protection, Privileges, Taxes, Allowance for Funds Used During Construction, and Other Related Costs.*

~~(2) Direct and indirect costs shall include, but not be limited to:~~

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~~(i) "Labor" includes the wages and expenses of employees directly engaged in or in direct charge of construction work. It includes expenses directly related to an employee's wages, such as worker's compensation insurance, payroll taxes, benefits and other similar items of expense.~~

~~(ii) "Engineering" includes the portion of the wages and expenses of engineers, draftsmen, inspectors, and their direct supervision applicable to construction work. In includes expenses directly related to an employee's wages, such as worker's compensation insurance, payroll taxes, benefits and other similar items of expense.~~

~~(iii) "Material and supplies" includes the purchase price of material used at the point of free delivery plus the costs of inspection, loading and transportation, and an equitable portion of provisioning expense. In determining the cost of material used, proper allowance shall be made for unused material, for material recovered from temporary structures used in performing the work involved, and for discounts allowed and realized in the purchase of material. This item does not include construction material that is stolen or rendered unusable due to vandalism. Such material should be charged to the applicable plant specific operations expense accounts.~~

~~(iv) "Transportation" includes the cost of transporting employees, material and supplies, tools and other work equipment to and from the physical construction location. It includes amounts paid therefore to other companies or individuals and the cost of using the company's own motor vehicles or other transportation equipment.~~

~~(v) "Contract work" includes amounts paid for work performed under contract or other agreement by other companies, firms or individuals; engineering and supervision applicable to such work; cost incident to the award of contracts; and the inspection of such work. The cost of construction work performed by affiliated companies and other details relating thereto shall be available from the work in progress and supporting records.~~

~~(vi) "Protection" includes the cost of protecting the company's property from fire or other casualties and the cost of preventing damages to others or the property of others.~~

~~(vii) "Privileges, Permits and Rights of way" includes such costs incurred in obtaining these privileges, permits, or rights of way in connection with construction work, such as for use of private property, streets or highways. The cost of such privileges and permits shall be included in the cost of the work for which the privileges or permits are obtained, except for costs includable in Account 2111, Land, and Account 2690, Intangible~~

~~(viii) "Taxes" includes taxes properly includable in construction costs before the facilities are completed for service, which taxes are assessed separately from taxes on operating property or under conditions that permit separate identification of the amount chargeable to construction.~~

~~(ix) "Special machine service" includes the cost of labor expended, materials and supplies consumed and other expenses incurred in the maintenance, operation and use of special and other labor saving machines (other than transportation equipment) such as trenching equipment, cable plows and pole setting trucks. Also included are~~

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~~expenditures for rental, maintenance and operation of such machines owned by others. When a construction job requires the purchase of special machines, the cost thereof, less the appraised or salvage value at the time of release from the job, shall be included in the cost of construction.~~

~~(x) Allowance for funds used during construction ("AFUDC") provides for the cost of financing the construction of telecommunications plant. AFUDC shall be charged to Account 2003, Telecommunications Plant Under Construction, and credited to Account 7340. The rate for calculating AFUDC shall be determined as follows: If financing plans associate a specific new borrowing with an asset, the rate on that borrowing may be used for the asset; if no specific new borrowing is associated with an asset or if the average accumulated expenditures for the asset exceed the amounts of specific new borrowing associated with it, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowing of the enterprise. The amount of interest costs capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the company in that period.~~

~~(xi) "Insurance" includes premiums paid specifically for protection against loss and damage in connection with the construction of telecommunications plant due to fire or other casualty, injury to or death of employees or others, damages to property of others, defalcations of employees and agents, and the nonperformance of contractual obligations of others.~~

~~(xii) "Construction services" include the cost of telephone, electricity, power, construction quarters, office space and equipment directly related to the construction project.~~

~~(xiii) "Indirect construction costs" shall include indirect costs such as general engineering, supervision and support. Such costs, in addition to direct supervision, shall include indirect plant operations and engineering supervision up to, but not including, supervision by executive officers whose pay and expenses are chargeable to Account 6711, Executive. The records supporting the entries for indirect construction cost shall be kept so as to show the nature of the expenditures, the individual jobs and accounts charged, and the bases of the distribution. The amounts charged to each plant account for indirect costs shall be readily determinable. The instructions contained herein shall not be interpreted as permitting the addition to plant of amounts to cover indirect costs based on arbitrary allocations.~~

~~(xiv) The cost of construction shall not include any amounts classifiable as Corporate Operations Expense.~~

(d) Telecommunications plant retired

(1) Telecommunications plant accounts shall at all times disclose the original cost of all property in service. When any item of property subject to plant retirement accounting is worn out, lost, sold, destroyed, abandoned, surrendered upon lapse of title, becomes permanently unserviceable, is withdrawn or for any other reason is retired from service, the plant accounts applicable to that item shall be credited with the original cost of the plant retired whether replaced or not (except as provided for minor items) ~~in paragraph (d)(2)(ii) of this section). Normally, these retirements credits with respect to such plant as entire buildings, entire central offices, all plant abandoned and~~

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~~any large sections of plant withdrawn from service, shall be entered in the accounts for the month in which use of the property ceased. For any other plant withdrawn from service, the retirement credits shall be entered no later than the next succeeding month. Literal compliance with the provision for timing of entries with respect to property amounting to less than \$50,000 retired under any one project is not required if an unreasonable amount of recordkeeping and estimating of quantities, original costs and salvage is necessary. The retirement entry shall refer to the continuing property record, or records supplemental thereto, from which the cost was obtained (note also paragraph (d)(3) of this section). Every company shall establish procedures which will ensure compliance with these requirements.~~

~~(2) To avoid undue refinement, depreciable telecommunications plant shall be accounted for as follows:~~

~~(i) Retirement units: This group includes major items of property, a representative list of which shall be prescribed by this Commission. In lieu of the retirement units prescribed with respect to a particular account, a company may, after obtaining specific approval by this Commission, establish and maintain its own list of retirement units for a portion or all of the plant in any such account. For items included on the retirement units list, the original cost of Depreciation, whether or not replaced. The original cost of retirement units installed in place of property retired shall be charged to the applicable telecommunications plant account.~~

~~(ii) Minor items: This group includes any part or element of plant which is not designated as a retirement unit. The original cost of a minor item of property when included in the specific or average cost for a retirement unit or units requires no separate credit to the telecommunications plant account when such a minor item is retired. The cost of replacement shall be charged to the account applicable for the cost of repairs of the property. However, if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, of greater durability, of greater capacity or more economical in operation), the excess cost of such a replacement, over the estimated cost at the then current prices of replacement without betterment of the minor items being retired, shall be charged to the applicable telecommunications plant account.~~

~~(3) The cost of property to be retired shall be the amount at which property is included in the telecommunications plant accounts. However, when it is impracticable to determine the cost of each item due to the relatively large number or small cost of such items, the average cost of all the items covered by an appropriate subdivision of the account shall be used in determining the cost to be assigned to such items when retired. The method used in determining average cost must give due regard to the quantity, vintage, size and kind of items, the area in which they were installed and their classification in other respects. Average cost may be applied in retirement of such items as poles, wire, cable, cable terminals, conduit and booths. Any company may use average cost of property installed in a year or band of years as approved by the Commission. It should be understood, however, that the use of average costs shall not relieve the company of the requirement for maintaining its continuing property records to show, where practicable, dates of installation and removal for purposes of mortality studies. (See § 32.2000(f) of this subpart, Standard Practices for Establishing and Maintaining Continuing Property Records.)~~

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(2) ~~(4)~~ The accounting for the retirement of property, plant and equipment shall be as provided above except:

(i) Minor Items: This group includes any part or element of plant which is not designated as a retirement unit. However, if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, of greater durability, of greater capacity, or more economical in operation), the excess cost of such a replacement, over the estimated cost at the then current prices of replacement without betterment of the minor items being retired, shall be charged to the applicable telecommunications plant account.

(ii) ~~(i)~~ Amounts included in Account 2005, Telecommunications Plant Adjustment; Leasehold Improvements; Account 2690, Intangibles; and any amounts associated with amortizable leaseholds, easements Account 2680, Amortizable Tangible Assets; Account 2681, Capital Leases; Account 2682, and similar rights in land included in Account 2111, Land shall be debited, as appropriate, to Accounts 3410, 3420, 3500, or 3600, and credited to the applicable accounts.

(ii) Amounts in Account 2111, Land, and amounts for works of art recorded in Account 2122, Furniture, shall be treated at disposition as a gain or loss and shall be credited or debited to Account 7150, Gains and Losses from Disposition of Land and Artwork, as applicable. If land or artwork is retained by the company and held for sale, the cost shall be charged to Account 2006, Nonoperating Plant.

(3) ~~(5)~~ When the telecommunications plant is sold together with traffic associated therewith, the original cost of the property shall be credited to the applicable plant accounts and the estimated amounts carried with respect thereto in the accumulated depreciation and amortization accounts shall be charged to such accumulated accounts. The difference, if any between the net amount of such debit and credit items and the consideration received (less commissions and other expenses of making the sale) for the property shall be included in Account 7350, Gains and Losses from Disposition of Certain Property. The accounting for depreciable telecommunications plant sold without the traffic associated therewith shall be in accordance with the accounting provided in § 32.3100(c) of this subpart.

~~(c) Basic property records~~

~~(1) The basic property records are that portion of the local property accounting system which preserves the following detailed information:~~

~~(i) The identity, vintage, location and original cost of units of property;~~

~~(ii) Original and ongoing transactional data (plant account activity) in terms of such units ; and~~

~~(iii) Any other specific financial and cost accounting information not properly warranting separate disclosure as an account or subaccount but which is needed to support regulatory, cost, tax, management and other specific accounting information needs and requirements.~~

(e) ~~(2)~~ The basic property records must be

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- (i) subject to internal accounting controls,
- (ii) auditable,
- (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and
- (iv) maintained throughout the life of the property.

~~(3) The basic property records shall consist of~~

- ~~(i) continuing property records and~~
- ~~(ii) records supplemental thereto which together reveal clearly, by accounting area, the detailed and systematically summarized information necessary to meet fully the requirements of paragraphs (e)(1) and (e)(2) of this section.~~

~~(4) Companies shall establish and maintain basic property records for each class of property recorded in the several plant accounts which comprise the balance sheet Account 2001, Telecommunications Plant In Service, Account 2002, Property Held for Future Telecommunications Use, and Account 2006, Nonoperating Plant.~~

~~(5) The company shall notify the Commission of a plan for the basic property record as follows:~~

~~(i) Not later than June 30 of the year following that in which it becomes subject to this system of accounts, the company shall file with the Commission two (2) copies of a complete plan of the method to be used in the compilation of a basic property record with respect to each class of property. The plan shall include a list of proposed accounting areas accompanied by description of the boundaries of each area as defined in accordance with the requirements of § 32.2000(f)(1) (i) and (ii) of this subpart. The plan shall also include a list of property record units proposed for use under each regulated plant account. These property record units shall be selected such that the requirements of § 32.2000 (f)(2) (i), (ii) and (iii) of this subpart can be satisfied.~~

~~(ii) The company shall submit to the Commission one copy of any major proposed changes in its basic property record plan at least 30 days before the effective date of the proposed changes.~~

~~(6) The company shall prepare and maintain the basic property record as follows:~~

~~(i) Not later than June 30 of the year following that in which the company becomes subject to this system of accounts, begin the preparation of a basic property record.~~

~~(ii) Complete within two years of the prescribed beginning date, basic property records for all property as of the end of the preceding calendar year.~~

~~(iii) Promptly process in the basic property records all property changes affecting periods subsequent to initial establishment of the basic property record.~~

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~~(7) The basic property record components (see paragraph (c) above) shall be arranged in conformity with the regulated plant accounts prescribed in this system of accounts as follows:~~

~~(i) The continuing property records shall be compiled on the basis of original cost (or other book cost consistent with this system of accounts). The continuing property records shall be maintained as prescribed in § 32.2000(f)(2)(iii) of this subpart in such manner as will meet the following basic objectives:~~

~~(A) Provide for the verification of property record units by physical examination~~

~~(B) Provide for accurate accounting for retirements.~~

~~(C) Provide data for use in connection with depreciation studies.~~

~~(ii) The records supplemental to the continuing property records shall disclose such service designations, usage measurement criteria, apportionment factors, or other data as may be prescribed by the Commission in this Part or other Parts of its Rules and Regulations. Such data are subject to the same general controls and standards for auditability and support as are all other elements of the basic property records.~~

~~(f) Standards practices for establishing and maintaining continuing property records~~

~~(1) Accounting area. Property records shall be maintained by original cost where appropriate. Otherwise averaging or estimates as described below shall be used.~~

~~(i) The continuing property record, as related to each primary plant account, shall be established and maintained by subaccounts for each accounting area. An accounting area is the smallest territory of the company for which accounting records of investment are maintained for all plant accounts within the area. Areas already established for administrative, accounting, valuation, or other purposes may be adopted for this purpose when appropriate. In no case shall the boundaries of accounting areas cross either State lines or boundaries prescribed by the Commission.~~

~~(ii) In determining the limit of each area consideration shall be given to the quantities of property, construction conditions, operating districts, county and township lines, taxing district boundaries, city limits, and other political or geographical limits, in order that the area adopted may have maximum adaptability, within the confines of practicability, for both the company's purpose and those of Federal, State, and municipal authorities.~~

~~(2) Property record units.~~

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Additions are in Italics. Deletes appear as overstrikes.

~~(i) In each of the established accounting areas, the "property record units" which are to be maintained in the continuing property record shall be set forth separately, classified by size and type with the amount of original cost (or other appropriate book cost) associated with such units. When a list of property record units has been accepted by the Commission, they shall become the units referred to in this statement of standard practices. Such units shall apply to only the regulated portion of this system of accounts.~~

~~(ii) When it is found necessary to revise this list because of the addition of units used in providing new types of service, or new units resulting from improvements in technology, or because of the grouping or elimination of units which no longer merit separate recognition as property record units, one copy of such changes shall be submitted to the Commission. Upon appropriate showing by the company, the Commission may specifically exempt the company from these filing requirements.~~

~~(iii) The continuing property record shall reveal the description, location, date of placement, the essential details of construction, and the original cost (note also § 32.2000(f)(3) of this subpart) of the property record units. The continuing property record and other underlying records of construction costs shall be so maintained that, upon retirement of one or more retirement units or of minor items without replacement when not included in the costs of retirement units, the actual cost or a reasonably accurate estimate of the cost of the plant retired can be determined.~~

~~(3) Methods of determining original cost of property record units. The original cost of the property record units shall be determined by analyses of the construction costs incurred as shown by completion reports and other data, accumulated in the respective construction work orders or authorization. Costs shall be allocated to and associated with the property record units to facilitate accounting for retirements. The original cost of property record units shall be determined by unit identification or averaging as described in paragraphs (f)(3)(i) and (ii) of this section.~~

~~(i) Unit identification. Cost shall be identified and maintained by specific location for property record units contained within certain regulated plant accounts or account groupings such as Land, Buildings, Central Office Switching, Central Office Network Management, Motor Vehicles, Garage Work Equipment, and Furniture. In addition, units involved in any unusual or special type of construction shall be recorded by their specific location costs (note also paragraph § 32.2000(f)(3)(ii)(B) of this subpart.~~

(2) (ii) Averaging.

~~(A) Average costs may be developed for plant consisting of a large number of similar units such as terminal equipment, poles, wire, cable, cable terminals, conduit, furniture, and work equipment. Units of similar size and type within each specified accounting area and regulated plant account may be grouped. Each such average cost shall be set forth in the continuing property record of the units with which it is associated.~~

~~(B) The averaging of costs permitted under the provisions of the foregoing paragraph is restricted to plant installed in a particular vintage or band of years incurred within an accounting area. This paragraph does not permit the~~

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Additions are in Italics. Deletes appear as overstrikes.

~~inclusion of the cost of units involved in any unusual or special type of construction. The units involved in such unusual or special type of construction shall be recorded at cost by location.~~

(3) (4) Estimates. In cases where the actual original cost of property cannot be ascertained, such as pricing an inventory for the initial entry of a continuing property record or the pricing of an acquisition for which the continuing property record has not been maintained, the original cost may be estimated. Any estimated original cost shall be consistent with the accounting practices in effect at the time the property was constructed.

~~(5) Identification of property record units. There shall be shown in the continuing property record or in record supplements thereof, a complete description of the property records units in such detail as to identify such units. The description shall include the identification of the work order under which constructed, the year of installation (unless not determinable per § 32.2000(f)(4) of this subpart, specific location of the property within each accounting area in such manner that it can be readily spot checked for proof of physical existence, the accounting company's number or designation, and any other description used in connection with the determination of the original cost. Descriptions of units of similar size and type shall follow prescribed groupings.~~

~~(6) Reinstalled units. When units to which average costs are not applied, i.e., specific and fixed location units, are removed or retired and subsequently reinstalled, the date when the unit was first charged to the appropriate plant account shall, when required for adequate service life studies and reasonably accurate retirement accounting, be shown in addition to the date of reinstallation.~~

~~(7) Age and service life of property. The continuing property record shall disclose the age of existing property and the supporting records shall disclose the service life of property retired. Exceptions from this requirement for any property record unit shall be submitted to the Commission for approval.~~

~~(8) Reference to sources of information. There shall be shown by appropriate reference the source of all entries. All drawings, computations, and other detailed records which support quantities and costs of estimated costs shall be retained as a part of on in support of the continuing property record.~~

~~(9) Jointly owned property.~~

~~(i) With respect to jointly owned property, there shall be shown in the continuing property record or records supplemental thereto:~~

~~(A) The identity of all joint owners.~~

~~(B) The percentage owned by the accounting company.~~

~~(ii) When regulated plant is constructed under arrangements for joint ownership, the amount received by the construction company from the other joint owner or owners shall be credited as a reduction of the gross cost of the plant in place.~~

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Additions are in Italics. Deletes appear as overstrikes.

~~(iii) When a sale of a part interest in regulated plant is made, the fractional interest sold shall be treated as a retirement and the amount received shall be treated as salvage. The continuing property record or records supplemental thereto shall be so maintained as to identify separately retirements of this nature from physical retirements of jointly owned plant.~~

~~(iv) If jointly owned regulated property is substantial in relation to the total of the same kind of regulated property owned wholly by the company, such jointly owned regulated property shall be appropriately segregated in the continuing property record.~~

(g) Depreciation accounting

(1) Computation of depreciation rates.

~~(i) Unless otherwise provided by the Commission, either through prior approval or upon prescription by the Commission, depreciation percentage and/or amortization rates shall be computed in conformity with a group plan of accounting for depreciation and shall be such that the loss in service value of the property, except for losses excluded under the definition of depreciation, may be distributed under the straight-line method during the service life of the property.~~

~~(ii) In the event any composite percentage rate becomes no longer applicable, revised composite percentage rates shall be computed in accordance with subparagraph (i) of this section.~~

~~(iii) The company shall keep such records of property and property retirements as will allow the determination of the service life of property which has been retired, or facilitate the determination of service life indications by mortality, turnover, or other appropriate methods. Such records will also allow the determination of the percentage of salvage value and cost of removal for property retired from each class of depreciable plant.~~

(2) Depreciation charges.

(i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges.

~~(ii) Companies, upon receiving prior approval from this Commission, or upon prescription by this Commission, shall apply such depreciation rate, except where provisions of paragraph (g)(2)(iv) of this paragraph apply, as will ratably distribute on a straight line basis the difference between the net book cost of a class or subclass of plant and its estimated net salvage during the known or estimated remaining service life of the plant.~~

(ii) ~~(iii)~~ Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts. ~~Current monthly charges shall normally be computed by the application of one twelfth of the annual depreciation rate to the monthly average balance of the associated category of plant. The average~~

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Additions are in *Italics*. Deletes appear as overstrikes.

~~monthly balance shall be computed using the balance as of the first and last days of the current month.~~

~~(iii) (iv) In certain circumstances and upon prior approval of this Commission, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over *appropriate* periods prescribed by this Commission. Such circumstances could include but not be limited to factors such as the existence of reserve deficiencies or surpluses, types of plant that will be completely retired in the near future, and changes in the accounting for plant. Where alternative methods have been used in accordance with this subparagraph, such amounts shall be applied separately or in combination with rates determined in accordance with paragraph (g)(2)(ii) of this section.~~

~~(3) Acquired depreciable plant. When acquired depreciable plant carried in Account 1439, Deferred Charges, is distributed to the appropriate plant accounts, adjusting entries shall be made covering the depreciation charges applicable to such plant for the period during which it was carried in Account 1439.~~

~~(4) Plant Retired for Nonrecurring Factors not Recognized in Depreciation Rates.~~

~~(i) A retirement will be considered as nonrecurring (extraordinary) only if the following criteria are met:~~

~~(A) The impending retirement was not adequately considered in setting past depreciation rates.~~

~~(B) The charging of the retirement against the reserve will unduly deplete that reserve.~~

~~(C) The retirement is unusual such that similar retirements are not likely to recur in the future.~~

~~5) Upon direction or approval from this Commission, the company shall credit Account 3100, Accumulated Depreciation, and Charge Account 1438, Deferred Maintenance and Retirements, with the unprovided for loss in service value. Such amounts shall be distributed from Account 1438 to Account 6561, Depreciation Expense Telecommunications Plant in Service, or Account 6562, Depreciation Expense Property Held for Future Telecommunications Use, over such period as this Commission may direct or approve.~~

~~(h) Amortization accounting~~

~~(1) Unless otherwise provided by this Commission, either through approval, or upon prescription by this Commission, amortization shall be computed on the straight-line method, i.e., equal annual amounts shall be applied. The cost of each type of asset shall be amortized on the basis of the estimated life of that asset and shall not be written off in the accounting period in which the asset is acquired. A reasonable estimate of the useful life may be based on the upper or lower limits even though a~~

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Additions are in Italics. Deletes appear as overstrikes.

~~fixed existence is not determinable. However, the period of amortization shall not exceed forty years.~~

~~(2) In the event any estimated useful life becomes no longer applicable, a revised estimated useful life shall be determined in accordance with paragraph (h)(1) of section.~~

~~(3) Amortization charges shall be made monthly to the appropriate amortization expense accounts and corresponding credits shall be made to the appropriate amortization reserve accounts. Monthly charges shall be computed by the application of one twelfth to the annual amortization amount.~~

~~(4) The company shall keep such records as will allow the determination of the useful life of the asset.~~

~~(i) Accounting for software The original cost of initial operating system software for computers shall be classified to the same account as the associated hardware whether acquired separately or in conjunction with the associated hardware.~~

§ 32.2000 Instructions for telecommunications plant accounts

(a) Purpose of telecommunications plant accounts.

(1) The telecommunications plant accounts (2001 to 2007 inclusive) are designed to show the investment in the company's tangible and intangible telecommunications plant which ordinarily has a service life of more than one year, including such plant whether used by the company or others in providing telecommunications service.

(2) The telecommunications plant accounts shall not include the cost or other value of telecommunications plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of telecommunications plant shall be credited to the accounts charged with the cost of such construction. Amounts of non-recurring reimbursements based on the cost of plant or equipment furnished in rendering service to a customer shall be credited to the accounts charged with the cost of the plant or equipment. Amounts received for construction which are ultimately to be repaid wholly or in part, shall be credited to Account 4360, Other Deferred Credits; when final determination has been made as to the amount to be returned any unrefunded amounts shall be credited to the accounts charged with the cost of such construction. Amounts received for the construction of plant, the ownership of which rests with or will revert to others, shall be credited to the accounts charged with the cost of such construction. (Note also Account 7110, Income from Custom Work.)

(3) When telecommunications plant ordinarily having a service life of more than one year is installed for temporary use in providing telecommunications service, it shall be accounted for in the same manner as plant having a service life of more than one year.

(4) The cost of individual items of equipment having a life less than one year or with an original cost less than an expense limit as designated by a Company based on Generally Accepted Accounting Principles, shall be charged to the applicable Plant Specific Operations Expense accounts. If the aggregate investment in the items is relatively large at the time of acquisition, such amounts shall be maintained in an applicable materials and supplies account until the items are used.

(b) The accounting for property plant and equipment is to be recorded at original cost:

(1) Depreciation and amortization of plant acquired shall be credited to Account 3100, Accumulated Depreciation; or Account 3200 Accumulated Depreciation-Held for Future Telecommunications Use; 3400, Accumulated Amortization-Tangible, 3410, Accumulated Amortization-Capitalized Leases; 3420 Accumulated Amortization-Leasehold Improvements; 3500, Accumulated Amortization-Intangibles; and 3600, Accumulated Amortization-Other, and debited to Account 1439.

c) Cost of construction.

(1) Telecommunications plant represents an economic resource which will be used to provide future services, the cost of which will be allocated in a rational and systematic

manner to the future periods in which it provides benefits. In accounting for construction costs, the utility shall charge to the telecommunications plant accounts, where applicable, all direct and indirect costs: Labor, Engineering, Material and Supplies, Transportation, Contract Work, Protection, Privileges, Taxes, Allowance for Funds Used During Construction, and Other Related Costs.

(d) Telecommunications plant retired

(1) Telecommunications plant accounts shall at all times disclose the original cost of all property in service. When any item of property subject to plant retirement accounting is worn out, lost, sold, destroyed, abandoned, surrendered upon lapse of title, becomes permanently unserviceable, is withdrawn or for any other reason is retired from service, the plant accounts applicable to that item shall be credited with the original cost of the plant retired whether replaced or not (except as provided for minor items).

(2) The accounting for the retirement of property, plant and equipment shall be as provided above except:

(i) Minor items: This group includes any part or element of plant which is not designated as a retirement unit. However, if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, of greater durability, of greater capacity, or more economical in operation), the excess cost of such a replacement, over the estimated cost at the then current prices of replacement without betterment of the minor items being retired, shall be charged to the applicable telecommunications plant account.

(ii) Amounts included in Account 2005, Telecommunications Plant Adjustment; Account 2680, Amortizable Tangible Assets; Account 2681, Capital Leases; Account 2682, Leasehold Improvements; Account 2690, Intangibles; and any amounts associated with amortizable leaseholds, easements, and similar rights in land included in Account 2111, Land, shall be debited, as appropriate, to Accounts 3400, 3410, 3420, 3500, or 3600, and credited to the applicable accounts.

(iii) Amounts in Account 2111, Land, and amounts for works of art recorded in Account 2122, Furniture, shall be treated at disposition as a gain or loss and shall be credited or debited to Account 7150, Gains and Losses from Disposition of Land and Artwork, as applicable. If land or artwork is retained by the company and held for sale, the cost shall be charged to Account 2006, Nonoperating Plant.

(3) When the telecommunications plant is sold together with traffic associated therewith, the original cost of the property shall be credited to the applicable plant accounts and the estimated amounts carried with respect thereto in the accumulated depreciation and amortization accounts shall be charged to such accumulated accounts. The difference, if any between the net amount of such debit and credit items and the consideration received (less commissions and other expenses of making the sale) for the property shall be included in Account 7350, Gains and Losses from Disposition of Certain Property. The accounting for depreciable telecommunications plant sold without the traffic associated therewith shall be in accordance with the accounting provided in § 32.3100(c) of this subpart.

(e) Basic property records must be

- (i) subject to internal accounting controls,
- (ii) auditable,
- (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and
- (iv) maintained throughout the life of the property.

(f) Standards for Maintaining Continuing Property Records

(1) Property records shall be maintained by original cost where appropriate. Otherwise averaging or estimates as described below shall be used.

(2) Averaging.

Average costs may be developed for plant consisting of a large number of similar units. Units of similar size and type within each specified account may be grouped.

(3) Estimates.

In cases where the actual original cost of property cannot be ascertained, such as pricing an inventory for the initial entry of a continuing property record or the pricing of an acquisition for which the continuing property record has not been maintained, the original cost may be estimated. Any estimated original cost shall be consistent with the accounting practices in effect at the time the property was constructed.

32.2000F(5)-(9).

(g) Depreciation accounting--

(1) Computation of depreciation rates.

(i) Depreciation percentage and/or amortization rates shall be computed in conformity with a group plan of accounting for depreciation and shall be such that the loss in service value of the property, except for losses excluded under the definition of depreciation, may be distributed under the straight-line method during the service life of the property.

(2) Depreciation charges.

(i) A separate annual percentage rate for each depreciation category of telecommunications plant shall be used in computing depreciation charges.

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(ii) Charges for currently accruing depreciation shall be made monthly to the appropriate depreciation accounts, and corresponding credits shall be made to the appropriate depreciation reserve accounts.

(iii) In certain circumstances, monthly charges may be determined in total or in part through the use of other methods whereby selected plant balances or portions thereof are ratably distributed over appropriate periods.

ATTACHMENT 2

May 1, 1998

RELATED TO NETTING REG ASSET AND REG LIABILITY:

Account 4361 - Regulatory Liability should be changed to read the following:

(a) This account shall include amounts of probable future ~~revenue~~ *net reductions in revenues attributable to future decreases in taxes payable*. *(future revenue reductions in excess of future revenue increases) attributable to:*

1- future net decreases to taxes payable related to the tax effects of temporary differences accounted for under the flow-through method (future decreases in excess of future increases).

2 - the impact of tax rate decreases in excess of tax rate increases on net deferred tax liabilities (deferred tax liabilities in excess of deferred tax assets) for those temporary differences underlying its existing balance

3 - the impact of tax rate increases in excess of tax rate decreases on net deferred tax assets (deferred tax assets in excess of deferred tax liabilities) for those temporary differences underlying its existing balance.

As *net reductions in revenue* occur, amounts recorded in this account shall be reduced with a debit entry and a credit entry to account 4340.

Account 1437 - Regulatory Asset should be changed to read as follows:

(a) This account shall include amounts of probable future *net increases in revenues for the recovery of future increases in taxes payable*. *(future revenue increases in excess of future revenue decreases) attributable to:*

1- future net increases to taxes payable related to the tax effects of temporary differences accounted for under the flow-through method (future increases in excess of future decreases).

2 - the impact of tax rate increases in excess of tax rate decreases on net deferred tax liabilities (deferred tax liabilities in excess of deferred tax assets) for those temporary differences underlying its existing balance

3 - the impact of tax rate decreases in excess of tax rate increases on net deferred tax assets (deferred tax assets in excess of deferred tax liabilities) for those temporary differences underlying its existing balance.

As *net increases in revenue reversals* occur, amounts recorded in this account shall be reduced with a credit entry and a debit entry to account 4340.

RELATED TO ELIMINATING THE GROSS-UP:

Replace 32.4340(a)-(e) with these words:

Account 4340 shall include the deferred tax effects of all unreversed temporary differences (i.e., SFAS No. 109 requires that unreversed temporary differences should be stated at the rate the tax will be paid) as defined under SFAS No. 109.

Delete account 4341, section 32.4341(a)-(c).